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WASHINGTON, D.C. 20505

24 MAR 1976

Honorable Carl Albert  
Speaker of the House of Representatives  
Washington, D.C. 20515

Dear Mr. Speaker:

This letter transmits for the consideration of the Congress a draft bill to amend the Central Intelligence Agency Retirement Act of 1964 for Certain Employees, as amended, which implements the President's recommendations in his message of 24 March 1976 that the one percent add-on in annuity adjustments be repealed.

The proposed bill alters the formula for computing cost-of-living adjustments to retirement annuities authorized by the Act. The original 1964 CIA Retirement Act provision authorizing cost-of-living adjustments was based upon a 1962 amendment to the Civil Service retirement system. The formula for computation of the adjustment was altered in 1969 for both the Civil Service and CIA Retirement Acts, by authorizing the addition of an extra one percent of the base annuity to each cost-of-living increase. The rationale for this bonus was to compensate retirees for the built-in delay between the actual increase in their cost-of-living, reflected in the monthly Consumer Price Index figures, and the date their annuities are increased to compensate for the rise.

In practice, however, the extra one percent has overcompensated annuitants. Since November 1969, the Consumer Price Index has risen 50 percent, while Federal annuities tied to the index have risen 63 percent. The fundamental problem with the one percent feature is that it corrects a temporary problem (a maximum few months delay in cost-of-living increases) with permanent compensation. The one percent figure continues to be paid to annuitants or their survivors long after it has offset their temporary loss.

The CIA Retirement System can no longer afford the luxury of the one percent bonus. The drain on retirement funds because of the cost-of-living increases has been unprecedented. The one percent add-on feature is an unreasonable windfall which adds dramatically to the drain of retirement funds. I have attached an estimate of the savings to the CIA retirement fund which passage of this legislation would occasion.



While similar legislation eliminating the one percent add-on is being proposed for all Federal retirement systems, the CIA system has lagged behind the other major systems in a number of important areas. A proposal to equalize benefits in the CIA and Civil Service systems is pending in the Congress.

We would appreciate early and favorable consideration of the proposed bill. The Office of Management and Budget has advised that enactment of the proposed bill would be in accordance with the program of the President.

Sincerely,

SIGNED

Vernon A. Walters  
Lieutenant General, USA  
Acting Director

Enclosures

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OLC:DFM:sm (retyped 23 Mar 76)

A BILL

To amend the Central Intelligence Agency Retirement Act of 1964 to  
eliminate the extra one per centum added to each cost-of-living  
annuity adjustment.

1           Be it enacted by the Senate and House of Representatives of  
2   the United States of America in Congress assembled,  
3   Section 1. That Section 291(a)(2) of the Central Intelligence Agency  
4   Retirement Act of 1964 for Certain Employees, as amended, (78 Stat. 1043;  
5   50 U.S.C. 403 note) is amended by deleting the phrase "1 per centum  
6   plus" from the second sentence of that section.  
7   Section 2. This Act is effective July 1, 1976.

#### ANALYSIS OF BILL

This bill would alter the formula for computing cost-of-living adjustments to retirement annuities under the Central Intelligence Agency Retirement and Disability System (CIARDS). Under the current formula, annuities are adjusted when the Consumer Price Index has risen at least 3 percent above the point which triggered the last adjustment, and the Index has remained at the higher level for three consecutive months. Under these circumstances, the annuity increase equals the highest percentage increase in the Index during the three-month period, plus 1 percent. This bill would not change the circumstances bringing about a cost-of-living increase, but would eliminate the 1 percent extra which has been added to each increase.

CHANGES IN EXISTING LAW

Existing law proposed to be eliminated is enclosed in brackets.

CENTRAL INTELLIGENCE AGENCY RETIREMENT ACT  
OF 1964 FOR CERTAIN EMPLOYEES, as amended  
(78 Stat. 1043; 50 U.S.C.A. 403 Note).

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TITLE II--THE CENTRAL INTELLIGENCE AGENCY  
RETIREMENT AND DISABILITY SYSTEM

\* \* \* \* \*

PART J--COST OF LIVING ADJUSTMENT OF ANNUITIES

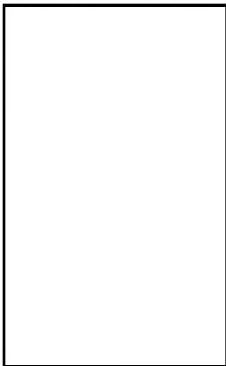
SEC. 291 (a) On the basis of determinations made by the Director pertaining to per centum change in the price index, the following adjustments shall be made:

(1) Each annuity payable from the fund on January 1, 1967, shall be increased on that date by (a) 12.4 per centum for annuities which commence on or before January 1, 1966, or (b) 4.9 per centum for annuities which commence on or between January 2, 1966, and January 1, 1967.

(2) Each month beginning with November 1966, the Director shall determine the per centum change in the price index. Effective the first day of the third month which begins after the price index shall have equaled a rise of at least 3 per centum for three consecutive months over the price index for the base month, each annuity payable from the fund which has a commencing date not later than such effective date shall be increased by [1 per centum plus] the per centum rise in the price index (calculated on the highest level of the price index during the three consecutive months) adjusted to the nearest one-tenth of 1 per centum.

SAVINGS ESTIMATE

Enactment of this proposed legislation would result in the following estimated reductions in outlays through 1981 from the CIARDS fund. The 1977 figure assumes the legislation is enacted by July 1, 1976.

<u>Fiscal Year</u>	<u>Reduction in Outlay</u>
1977	
1978	
1979	
1980	
1981	

25X1